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Special Committee on Comparative Costs

FOLLOWING a recent meeting of the directors of the Society, a special committee on Comparative Costs has been set up for the following main purposes: To encourage more uniform practice in cost accounting, and to co-operate with the Tariff Board of Canada in determining what is necessary to accurately show costs.

The difficulties of comparing costs of firms producing the same product or service, when radically different costing methods are in use, have been apparent in numerous efforts towards exchange of information or towards industrial regulation, in Canada and in other leading nations. The adoption of uniform methods of costing within an industry may be too much to expect at the present stage, but it is recognized that any trend in that direction will facilitate co-operation and cost investigations. And the problem of comparing costs under present accounting methods is one in which the experience and skill of members of this Society should be of general benefit to industry.

Though the problem has existed over many years, this action has been taken now partly because of the need for business concerns to get together in connection with inquiries by the Tariff Board which require the investigation of costs. These investigations give rise to accounting problems with which the Society may be of some aid to business concerns.

In a recent interview with an officer of the Society, Hon. Mr. Sedgewick, Chairman of the Tariff Board of Canada, stated that the Board would welcome the co-operation of the Society on its problems from time to time, and expressed his pleasure that a special committee for this purpose was being organized.

The committee of course will not undertake any of the detailed work which is necessary for comparing costs, and which properly belongs to industrial or practicing accountants. It is intended rather to sit in with representatives of firms which are faced with the task of comparing costs, and discuss with them broad methods of procedure. For this purpose the Society should be familiar with the methods and rulings of the Tariff Board in respect to cost accounting practice.

It is obviously impracticable to form a committee representing all lines of business, so that a small, active committee has been set up, with power to add to its number temporarily as special needs arise.

The committee consists of: A Broomer, C.A., director and comptroller, The Robert Mitchell Company Ltd., Montreal; Hon. Gordon W. Scott, C.A., P.S., Ross & Sons, Montreal; G. H. Houston, secretary, Rolph-Clark-Stone Ltd., Toronto, and president of the Society; S. E. LeBrocq, comptroller, The Steel Company of Canada Ltd., Hamilton; W. A. McKague, general secretary, The Canadian Society of Cost Accountants & Industrial Engineers, Toronto.

The Duff Report and its Underlying Principles

By D. W. BUCHANAN, M.A., *University of Toronto.*

(Before Toronto Chapter, October 27, 1933)

IN good approved style, I am beginning my address this evening with an apology, by apologizing for the haste that I have enforced upon this meeting. This, indeed, is so great, that I am committing the very great breach of etiquette in omitting the usual series of after-dinner stories which is usually considered necessary to place the audience in a favourably receptive frame of mind. I'll leave that task to the supper which we have just had.

I have been asked to speak on the Duff Report and its underlying principles, and I think that everyone here will admit that it is rather a heavy task to boil that whole subject down to one address. Therefore, I do not propose to deal with the whole of the Report, but rather design to portray those parts which, to me, seem most important in the light of their merits or demerits. In connection with the latter, there are certain recommendations which I have placed in a separate section by themselves. I must admit, however, that one of these at least, is not politically feasible at the present time. I refer to the idea of the amalgamation of the two railways, and the reason, obviously, is that the public of Canada is not yet educated to face this proposal on its merits, in the light of present transportation conditions. In this respect, those of us who are advocating the principle may be likened to the 'voices in the wilderness' and further likened to the proverbial Professor Little. This gentleman, so the story goes, was a man of small stature, with a little wife and five little children. Like the rest of that profession, Professor Little received a very little salary. One day a friend accosted him and asked how he was able to make both ends meet. "Oh", came the reply, "Every little helps!".

Every one knows that the Duff Commission was appointed on November 20, 1931, for the purpose of investigating, and offering solutions for the existing transportation problem in this country. This problem, as I see it, can be divided into three main headings, namely, the problem of capitalization with the contingent question of recurring deficits; secondly, the issue on the rate structure; and finally, the ever-pressing problem of competition as it relates to the rail carriers themselves, the waterways, and the highway carriers.

Capitalization

Both railways face a present problem of capitalization. Evidence of this on the Canadian Pacific Railway is seen in an examination of its dividend policy. Between the years 1911 and 1931, (April 1st), a consistent 10% dividend was maintained. This however, was halved between June 20, 1931 and April 1, 1932, while the Fifty-Second Annual Report for the year ended December 31, 1932 showed no contribution to ordinary stock and but one of the half-yearly dividends on the preference stock. Meanwhile, in this year of economic stress, fixed charges were mounting. 1932 saw in increase of $1,569,165.40 over

the previous year. This phenomenon is stated in another way when we note that in 1927, the ratio of the sum representing ordinary and preference stock to the total security-capitalization was 53.57%. In 1932, it was 49.17%.

Of course the C.P.R. is not the only company which now finds itself in that boat, but nevertheless, in years such as the present, a tremendous strain is placed on the organization to meet its fixed charges, and hence we must recognize this factor as part of the problem. Capitalization is definitely part of the Canadian National Railways' problem. Thus the Duff Commission admitted that it was "....of opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National System must be regarded as lost, and that its capital liabilities should be heavily written down". That, however, was as far as the Duff Commission reported. They pointed out that the time is inopportune, but they did not give any principles which should be employed in the actual deflation. As you know, there are two factors to be considered, namely, the debt in the hands of the public, and that in the hands of the government. This former sum was carried in the annual report of 1932 at $1,264,517,167.08. Of this sum, $965,831,382.28 or 76.39% is guaranteed by the Dominion Government; $72,184,488.08 or 5.71% is guaranteed by the various provincial governments, while the remainder is so-called "unguaranteed", yet so great is the interest of the country in its 'equity of redemption' that the fixed charges are always paid. The second factor, the loans from the Dominion of Canada, augmented by the interest thereon accrued, but unpaid, reaches the staggering sum of $1,084,653,588.00. Unlike the Canadian Pacific, the Canadian National capitalization shows but $270,213,563.70 as capital stock, and of this, fully 98.3% is held by the Dominion Government and has long since been relegated to the category of non-active assets. The result is that on paper at least, the Canadian National Railways are burdened with an almost 100% inflexible obligation on their so-called capitalization.

There is, in this connection, the further problem of recurring deficits, especially relating again to the Canadian National Railways. In the post-war period, there have only been two years, 1926 and 1928 when there has been a surplus after the payment of interest on the public debt. These two exceptions amounted to the sum of $11,000,000. The deficits were liquidated in two ways. In 1931 there was a system net deficit of $99,275,680.24. That year, the long-term funded debt increased by the net amount of $107,891,344.14, and interest charges went up by $4,292,139.98. 1932 saw a system net deficit of $101,335,073.95, but market conditions were far from favourable. This time, the column of loans from the Dominion of Canada was increased by the amount of $91,316,967.35. There, then, is that problem. If the security market fails, we call on the government. Even the Canadian Pacific Railway has this year received government guarantee on $60,000,000 of short-term notes. The question, à fini, is how long can the credit of the government stand these recurrent drains? Viewed from the angle of the Canadian National Railways' administration, we find the psychological discouragement in having to operate a road whose best year proved inadequate in meeting all the obligations presented against the enterprise.

The Rate Structure

The problem of the rate structure was definitely side-tracked by the Duff Commission who preferred to recommend a further inquiry.

They did hint, however, that "In determining what is fair and reasonable to the railways, regard should be had, inter alia, to the cost (including the remuneration of the capital invested) of providing these services".

The problems presented by this one single aspect are legion. The remuneration of invested capital throws us back to our unsolved problem of capitalization. Even with this question set aside, it is dubious whether cost of service can be taken as a prime criterion of the rate structure. By this term, 'cost of service' we mean operating costs, both fixed and variable, plus miscellaneous costs, connected with various transportation enterprises, taxes, fixed charges plus reasonable dividends. Under this definition, cost of service may be acceptable as a basis of the general level of rates even as it was in the latter war and immediate post-war years, but for an individual rate, the applicability of this principle is not so clear. It is fairly obvious that 'ceteris paribus', the interests of the railways and shippers are analogous. Traffic must be not only maintained, but augmented if possible. The rate, therefore, must be such as to prove no bar to this principle, and yet come within the terms of the Railway Act as being non-discriminatory. Hence we have in eastern Canada to-day, a class rate structure which is largely based on the so-called "Schedule 'A' Mileage Scale", and this applies to the most important producing and distributing centres. Should the point of shipment or destination be off the main lines on a relatively out-of-the-way branch, the chances are that a higher mileage scale may be utilized, with Standard Mileage as maximum. In the justification of this higher charge, we occasionally catch a glimpse of the cost of service principle. In western Canada, Schedule 'A' as a basis of 'town tariff' or distributing rates is replaced by 85% of Standard Mileage. But here another element enters, namely, rail competition. On the run from Calgary to Vancouver, for example, we find mileages of 641.5 via the Canadian Pacific and 993.7 via the Canadian National Railways. In striking the Canadian National rate, however, the Canadian Pacific mileage is used.

That structure related to class rates. Even more important is that of the commodity tolls since under it, the majority of Canadian tonnage moves. This is the field of the great staple products which, being of low-grade nature, can not stand a strictly mileage scale of rates over a long distance. Mileage, and class rates are therefore forgotten, and we find arising a host of commodity tariffs in which the individual rates are based mainly on an endeavour to keep the traffic moving in the face of commercial conditions such as alternative sources of supply, shorter haul to market in one case than in another, and so on. The best example that we have, is that of wheat, and here we find that the whole of Western Canada from Port Arthur to Edmonton is divided into fourteen groups for the movement of grain eastwards. These divisions increase one above the other by a 1c-interval save for the first two, broken at Rainy River, where a 2c-interval is found. Thus, to ship grain from Winnipeg to Port Arthur, a distance of 423.5 miles, the rate is 14c per 100 lbs. From Edmonton, on the other hand, to the Head of the Lakes, is a distance of 1216.9 miles and the rate is only 26c per 100 lbs. The result is more striking if we reduce both to a ton-mile basis of comparison. By this new method, the former rate becomes .6612c and the latter, only .4274c.

Obviously, therefore, if we look at the structure from the point of view of the cost of service principle alone, primary products are in a manner subsidized at the expense of high-grade merchandise. With slight increments due to insurance, the out-of-pocket cost of moving

a carload of well-packed furniture is distinctly comparable to that of moving a carload of wheat. Why, then, the tremendous difference in the charge on the two cars? The answer is that cost of service as a principle is not enough and that we must also consider value of service as well. This second principle can be illustrated quite well by considering two movements. Boots, in less than carload quantities are classified at 1st class, so that on the hundred pounds between Windsor and Nipissing, say, a distance of 420 miles, the rate would be 97c. For purposes of computation, suppose we take 40 pair of shoes to the 100-pound lot, at an average value of $4.00 per pair. Freight charges are only .6063% of the total market valuation of the product. On the other hand, let us take a shipment of wheat from Winnipeg to Port Arthur, a comparable distance of 423.5 miles, and the rate is 14c on the 100 lbs. Taking a supposed valuation of 80c per bushel, which may be high, we find the freight charges this time to be 10.446% of the total market valuation of the product.

These are the two main principles underlying our present rate structure. There are, however, a host of others. Must they be changed? On the one hand, we find certain communities demanding relief from burdensome freight charges, while, on the other, we find the railways raiding their surplus, if any, to meet fixed charges.

Another problem of the rate structure, is that of sectionalized interests. Disregarding 'bridge' territory over Lake Superior from the Head of the Lakes to Capreol and Cochrane, Canada is divided into four main traffic divisions, namely, the Pacific, reaching inland to Edson, Alta. on the Canadian National and to Canmore and Crowsnest on the Canadian Pacific; the Prairie, extending thence to the Head of the Lakes; Central Canada, comprising Ontario points and those of Quebec west and south of Levis and Diamond Junction; and finally, the Maritimes. The question arises as to whether the rate structure is such as to meet the needs of each of these sections possessing, as they do, economic factors of their own. Prior to 1927, all of eastern Canada was united under the full Schedule 'A' rates in each local division. That year, however, the Maritime interests were successful in persuading the Duncan Commission that their peculiar economic position was such that lower freight rates were not only politically justifiable but imperative. Hence we find the Maritime Freight Rates Act granting 20% reduction in local rates and in westbound rates on the Maritime proportion. On the other end of the continent, we find a continued struggle against the Mountain Differential which segregates Pacific from Prairie territory. Briefly, the Differential means that charges in Pacific territory for one mile are the equivalent of those for one and one-quarter miles in Prairie territory. This has been justified time and again before Commissions on the basis of increased costs of operation in the mountain district, but British Columbia still feels that she has a political right to equality of charges as between Pacific and Prairie divisions. A new sectionalized interest which has arisen in the last few years comes from the Peace River district and their proposals have been definitely Dominion affairs since the Northern Alberta Railways were taken over jointly by the Canadian Pacific and the Canadian National Railways in 1929. Later interest will also centre on the sections above Lake Superior, which we have termed 'bridge' territory. Here, the class rate structure is already in a state of radical transition.

Competition

(a) **Rail:** Still another phase of the transportation problem as a whole might be categorized under the heading of competition, and

here we might stop to consider the purely rail competition. We have already indicated the effect of this factor in holding down the individual rate of a longer-distance competitor, but it must be confessed that in post-war days, the folly of extravagant rate wars has been fully recognized on the part of the carriers. This has been so clear that in spite of the recommendations of both majority and minority reports of the Royal Commission of 1917, our Board of Railway Commissioners has yet to be endowed with power over minimum rates. As far as an individual toll was concerned, the powers of the Board relating to reasonableness of rates and undue or unjust preference have usually been sufficient to pull the toll back into line. Rivalry, however, was not dormant, and now took the form of competition in the matter of services. In some instances, this seems to have run to the extreme case of house delivery of tickets. More obvious, of course, was the construction and acquisition of new branch lines. The struggle was especially concentrated in the three prairie provinces. Far be it from us to criticize the branch line policies per se. Any student of transportation knows that an aggressive branch line policy was earnestly advocated by the Board of Railway Commissioners in their Western Rates Case of 1914, and the same idea was hinted at in the Drayton-Acworth report of 1917. The trouble, however, seems to have been two-fold. In the first place, it is a well-recognized fact that for some time, until its traffic develops, a branch line may be a liability rather than an asset to its parent corporation. During the years of rising prosperity and general optimism, and even after the break of 1929, we find the operated mileage of the two companies increasing. In the last two years the tendency has been reversed, but the fact remains that costly branches have been acquired at a time when all the resources of the parent organizations should have been conserved to meet the crisis. The instalment policy is dangerous in connection with branch lines. In the second place, however, it must be recognized that certain branches have been unloaded on the railways for purely political reasons, and have but little indication of carrying themselves in the near future. The Northern Alberta Railways, for example, became the joint legacy of the two main carriers and in 1930, which was the first year its operations entered the Canadian National records, a deficit of $1,027,904.12 was chalked up. In the last report, for 1932, the deficit was still $1,033,267. The Duff Commission gave official recognition of this factor in connection with the six acquisitions of the Canadian National Railways during 1929, and their terse comment is highly satisfactory:—"....but the commission believes that it would have been better had the Government assumed this burden directly and thus avoided saddling the railways with capital charges and operating expenses resulting from the purchase of railways based solely on a public policy".

Another form of this competition comes in connection with the famous hotel race, which is very beautifully portrayed in the Duff Report. For the nine-year period, 1923-1931 inclusive, the Canadian National Railways Hotels resulted in an operating loss of $2,130,924, a figure which last year, was augmented by $59,482. The Canadian Pacific Railway, on the other hand, during the same period had an operating profit of $7,466,827 on a total investment of $71,148,772. As the Report points out, this is not sufficient to provide for interest on investment plus a reasonable allowance for depreciation.

Finally, we should note the competition in coastal steamship services as reported by the Duff Commission. Here, the most conspicuous blunder pointed out was in connection with the Tri-city Service be-

tween Vancouver, Victoria and Seattle. This route had been adequately served by the Canadian Pacific steamers, but in 1929, the Canadian National Railways decided to enter the field with two new boats costing $4,300,000. Improvements in dock facilities were needed, and the final capital investment amounted to $8,176,582. The service was discontinued in 1931 after three years of operating deficits.

(b) **Water:** A glance at a map of Canada is sufficient to show another factor competitive to rail transportation, namely, that of the waterways and of the two carriers, the latter has been by far the longer established. The inland lakes and rivers of the St. Lawrence system proved to be the first natural highway over which the embryonic commerce of this country moved. Little wonder, therefore, need be expressed when we find subsequent transportation agencies facing an active competition from the steamship companies. As far as service per se is concerned, each seems to have its own definite sphere, and yet, ultimately, the advantages seems to lie with the rail carriers on account of their greater speed and organization. But for the carriage of bulky cargoes over long distances, and without too great consideration of the time element, the steamship service has proven itself superior because of the lower costs involved. Lower costs mean lower rates under freely competitive conditions, and hence we would expect to find the greatest influence of this competition being exerted on the rate structure. Such, indeed, is the case. As one example among many, we might note the influence on the distributing class rate structure of Eastern Canada. Originally these 'town tariffs' so-called, arose from the competition of the Great Western with the Grand Trunk Railway prior to their amalgamation in 1882. Under this code of rates it must be admitted that the main Ontario producing and distributing points grew and flourished. After the amalgamation noted above, and in spite of the fact that the Canadian Pacific Railway soon appeared on the horizon, it must also be admitted that water competition, plus the long-and-short-haul clause of the Railway Act had an extremely potent influence in the continuance and spreading inland of the town tariff schedules. Finally, under the International Rates Case of 1907, wherein the system was codified under the Schedule 'A' mileage tariff, water competition was definitely given its place in the shaping of the system. As for the individual rates, there are dozens of cases before the Board where water competition whether actual or potential has been given as sufficient reason for affording one distributing point a lower rate than that accorded to its competitor.

Not only has water competition been exerted through the Great Lakes system, but the intercoastal service through the Panama Canal has, since 1914, exerted much influence over the transcontinental commodity rates. The growth of this factor in the last decade has been phenomenal.

TRAFFIC TO AND FROM THE EAST AND WEST COASTS OF CANADA, VIA THE PANAMA CANAL[1]

	Originating ON		Destined FOR	
	West Coast	East Coast	West Coast	East Coast
	Figures in long tons.			
1921	125,638	39,561	126,414	16,558
1924	1,223,102	110,677	141,086	197,204
1927	1,548,783	207,003	248,000	803,418
1931	3,525,133	110,924	967,100	517,410

1. Canada Year Book, 1932, page 586.

From the railway point of view, the destination column is most interesting but, of course, all of this traffic can not be considered as lost to the railways since much of it would have originated along the east coast of the United States and in other foreign lands. For example, taking the year 1921 as illustration, we see that while there were 39,561 tons originating on the East Coast, there was actually a total of 126,414 tons destined for the West Coast. A further discrepancy is seen when we realize that all of the traffic originating on the East Coast need not necessarily have been consigned to the West Coast of Canada. The factor, however, is too potent to be disregarded.

(c) **Highway:** Finally, we would draw attention to the last phase of the competitive problem, namely that between the rail and highway carriers. The amount of controversy currently being waged around this question proves that it cannot be neglected. The problem is two-fold, the first section embracing passenger and the second dealing with freight traffic. All students of transportation recognize the drastic falling off in the passenger service of the railways. The year 1920 saw the largest total of passenger-miles of the post-war period, reaching a figure of 3,522,494,856. In 1924, the passenger-mileage of Canadian railways had shrunk to 81.5% of the 1920 base. Improvements were recorded in the following years to 1928 when the percentage stood at 88.1%. From then on, however, there have been drastic declines with the 1931 passenger mileage standing at only 49.65% of the 1920 figure. To a large extent, the latest decline may be answered by current conditions, but undoubtedly, the major factor in holding the passenger-mileage curve from a steady growth has been the increasing popularity of the private automobile. Total motor vehicle registrations in Canada climbed from 513,821 in 1922 to 1,206,836 in 1931, and in the latter year, only 165,190 registrations belonged to motor trucks.

Freight traffic, however, is of more importance to the railway and here, truck competition is felt. It is impossible with the present statistics available to give a good estimate of the amount of revenue freight actually taken from the railways by their trucking competitors. One attempt was made by the Bureau of Economics of the Canadian National Railways for 1931 and the figure of $24,000,000 gross was reached. However, there were many possibilities of error in the method employed and the actual sum may have been radically divergent. However, even this figure represents an amount from which a net return could be extracted that would be very acceptable to the rail carriers. The ultimate problem facing the railways, however, is broader than dollars and cents. Actually, the character of competitive tonnage is involved. We have already indicated that the domestic rail rate structure is so based on the 'value of service' principle that, in proportion to weight and bulk, the primary products enjoy extremely low tolls, while highly-manufactured products are in the other extreme. The first set of rates is necessary to move the heavier products through extreme distances in order to get them to market. To some extent, therefore, this movement may be subsidized by the higher-paying traffic. But here the truck steps in. As far as agricultural products are concerned, it may be found that the individual trucker is forming into natural co-ordination with the rails, firstly, by transporting to and from the rail collecting and distributing head, and, secondly, by relieving the railways of much short-haul and relatively unremunerative traffic. The main trouble, however, concerns the huge inter-urban transports which, with no regulation over their rates, may deliberately choose their traffic, and which naturally concentrate on the higher-paying classes of traffic. The question ultimately,

therefore, is as to whether this factor in itself will be sufficient to force the rates on low-grade products into the ascent in order to preserve the railways in a solvent position. As we have said before, the costs of carrying two carloads, the one of shoes and the other of wheat, through a given distance may be distinctly comparable, but certainly the returns on the former shipment act as the greater bolster to the net revenues of the carrier.

Such, then, is what we mean when we talk of the transportation problem of Canada. Time at our disposal forbids us to go into the roots of the problem, but these go back to the early days when Canada over-built herself with three great transcontinental systems. This history has been told and retold in the last few months. If it is not clear, perhaps we may reach it in the discussion period.

Recommendations

How, then, is the problem to be solved? In some respects, the dilemma as an entity, as we face it to-day, cannot be solved by artificial means looking to transportation alone. General business conditions are so interlocked with the prosperity or failure of railway enterprise that one must give them a large place in the ultimate answer. In the report of the National Transportation Committee of the United States, the opinion was expressed that a 20% increase in traffic volume would put most of the railroads on an earning basis, and that less than a 50% increase would restore them to the net earning levels of 1929. Comparing the operating ratios of the Canadian Pacific Railway with those of the larger United States roads, one can fairly assume, we think, that the same figures could apply to the Canadian carrier. The Canadian National, however, under its present capitalization has yet to prove its earning capacity. There have been, of course, many plans in the past which have been suggested to ease the transportation question It would be futile, however, to go back to discuss the pros and cons of earlier ones such as the Drayton-Acworth and Smith reports. The problem has widened so that it is comparable in few respects to that faced in 1917.

The major plan at the present time is, of course, that recommended by the Duff Commission, but even this does not attempt a complete solution. The twin questions of capitalization and the rate structure are shelved for future inquiry A beautiful analysis of the competitive problem and its relation to the recurring deficits is given, but we are forced to admit that the solution proposed is not such as the problem demands. In the first place, even as it was in the 1917 report, the whole idea of amalgamation is repudiated on the grounds that the 'time is not opportune for giving serious consideration to this particular remedy'. But surely with the Federal Treasury faced with a loan of $91,000,000 for an annual deficit, one might expect rather drastic remedies. Actually, the time is most opportune provided we can face the term 'amalgamation' without stirring up a lot of nightmares. There are some very definite advantages to the plan. In the first place, it would mean a centralized organization with administrative savings. The biggest advantage, however, would be in the elimination of duplicating lines and facilities, with the proper 'staggering' of schedules. Some of these benefits could be obtained by agreement between the two competitors, but there would still be friction over whose lines should be removed or relaid. In some cases, the proper staggering of schedules is almost impossible under competitive conditions due to the demands of the 'hinterland' of each particular company, and also to the relative inflexibility of transcontinental

schedules. While we may not all agree with Mr. Beatty's estimated savings of $64,000,000 to $70,000,000, we must admit that the sum would be enormous and a welcome addition to the net returns. It is significant, moreover, that two out of the three plans submitted to the latest Royal Commission emphasized united operations in one form or another.

Amalgamation Would Not Cause Transportation Monopoly

There are disadvantages which must be faced, but some that have been raised are imaginary. A monopoly in transportation would not be effected even in the long-haul traffic. In the short-haul field, the motor truck is an extremely active competitor. In the long-haul field we find water competition both on local and through rates in Eastern Canada and on transcontinental traffic. The competition of American lines would still exert a restrictive force on rates from the Pacific coast to the midcontinent as well as in the territory in Eastern Canada. Even without these preventives we have a judicial bulwark in the Board of Railway Commissioners who could stop extortionate rates through their powers over the reasonableness of tolls. Moreover, the so-called railway monopoly could not discriminate in its charges to competing manufacturers, because we again find the Board armed with powers against unjust preference. Certain sections of the community would have a definite price to pay. Those sections where duplicating rails would be raised might find communications hampered, but with thorough co-ordination of bus and truck service that we discuss later, their trouble would be largely mitigated. There would also be a short-run effect upon the labour force, but it would be minimized in time as the railway operations assumed a better paying basis. The same influence is being seen at the present time, however, as both Canadian Pacific and Canadian National Railways are getting their service upon a more consolidated basis. The most potent argument against amalgamation is that showing the political power of such an organization. There is a mitigating factor which is usually forgotten. A railway, in the absence of complete monopoly, lives on the good-will of the shipping and travelling public. Even in early cases of absolute monopoly, the most far-sighted carriers recognized that Vanderbilt's 'public be damned' attitude was wide of the mark. At any rate, political pressure 'en masse' could only come through the ballot, and here the answer is not merely to vote against the railways, but to train and enlighten an intelligent public opinion.

Lacking amalgamation, however, the Duff plan of three Trustees has merit. The old Board with regional representation failed to check the unwarranted optimism of a young country. There would be much less chance for lateral public pressure while legitimate ideas could circulate through legitimate channels. But we are unable to express agreement with the idea involved in the arbitral tribunal. There we do find concentration of authority brought to an extreme! Instead of having a board of railway operating men decide on joint operations, we find ultimate decisions made by one man, the Chairman of the Board of Railway Commissioners. As far as the present incumbent is concerned, we feel that he has earned respect for his fair-minded and impartial rulings, but we have no guarantee that the supply of such men will not fail, nor could we honestly give our support to all of the former Chairmen. Moreover, some thought should be given to the claims of the private railroad. After all, according to our corporation law, the owners or stockholders of a solvent institution are supposed to enjoy full rights of control over the operations of the physical plan through their power in the election of directors. In

flat contradiction to this, the Report outlines seven specific fields in which directors' decisions may be overruled by the arbitral tribunal. Based on fact, this ruling would be final since there would be no appeal save on the questions of law and jurisdiction and even here, the general and sweeping terms of the recommendation make the efficacy of appeal decidedly dubious. Finally, the arbitral tribunal might be opposed on the grounds that it would be superfluous. Any student of railway operations knows the multitudinous detail of regulations which surrounds the enterprise. Not only are these found in the Railway Act, but one must also trace the General Orders of the Board and legislation embodying charters and agreements to obtain a complete picture. Yet here is recommended one more piece of regulation which could be even more onerous than the others to the railway which lost the decision. At any rate, the main idea of the tribunal was to encourage joint operations and to block the continuance of the race to duplicate existing facilities. But a glance at a railway may of Canada shows that in the purely railway field, there are not many more worlds to conquer; the damage has been done. In other words, the last few years have provided a hard-earned lesson in economy to both Canadia carriers, and, once the present process of consolidation is completed, we may expect a sane and less sanguinary outlook on the whole question of competition.

What Happens To Railway Debts?

On the question of capitalization, we are almost forced to agree with the recommendation of the Commission as far as it goes. The Report admits that on the basis of earning power exhibited from 1923 to 1931 inclusive, the capital structure of the Canadian National Railways is due for a drastic deflation. But the questions how far and by what means this process is to take place, have been overlooked. On a 5% basis, the average net operating income referred to would only support a total figure of $500,000,000. Repudiation is an ugly word, but it should be frankly recognized that had receivership proceedings been instituted during the closing years of the war, some composition of creditor interests would necessarliy have been affected. At the present time, all classes in the community are asked to bear a share in the final solution of the problem. It might well be in the interests of the various bondholding classes in the Canadian National system to sacrifice a little instead of having the unfortunate alternative thrust upon them, namely, the task of running the railway themselves, as a paying institution and without any support from the 'long purse of the State'. According to the Report, the final composition should be left to the Board of Trustees. Again, however, we would question the wisdom of the recommendation. To a great extent, it would depend upon who the Trustees were, and what were their business interests and training. After all, only the chairman was to be a full-time man. Actually, this intricate and thankless task should be delegated to a committee of men who would be best fitted and trained for such work: men, for example, such as well known financiers and accountants. Railway operating men may, but more likely may not, have the necessary experience. Their work is poles apart from the field of finance.

Dates and Competition

As for the rate structure, the pivotal point in that problem is not so much the question as to whether rates are too high for shippers or too low for the railways, as it is a question of the ultimate effect of highway competition. Already the two railways have united in a

store-door and pick-up service throughout Southern Ontario. If this plan spreads, it will undermine the whole Canadian classification, greatly lower rates on the first three classes of merchandise and therefore put pressure on the lower rates accorded to primary products. It is doubtful if the near future contains sufficient increases in traffic offerings to offset the resulting decrease in returns. Perhaps, then, it is high time to seek for a solution of the highway problem.

In this question, we must confess that the Duff Report took a highly sensible attitude. Highway competition is here to stay, for the simple reason that in some industries the truck can meet the transportation needs in ways that the railways are simply incapable of duplicating. Within a short haul, set by the Commission at 50 miles, the advantages seem to lie on the side of the truck. It is more flexible, going directly from and to the loading and unloading platforms. Terminal expenses are largely eliminated whereas, on the railways, the charge for the 50-mile haul must take consideration of the major position of such charges. On the other hand, in the long-haul field, the railways hold the palm. Terminal charges are mainly constant whether the haul be for 50 or 500 miles. Therefore, as the haul extends, the unitary charges travel in a relatively inverse ratio. Between these two terms, long- and short-hauls, there is a broad field, set by some authorities as high as 300 miles where truck and rail come into fair competition and carry off the laurels according as they are able to give the superior service. The ideal situation may be taken from the Duff Report itself:—"The truck has its place in the movement of goods, but its proper function is collective and dispersive and not that of a primary carrier. In a properly co-ordinated transport system, the railway would assume the main burden of the carriage of goods over distances exceeding fifty miles and the trucks would operate as collectors and distributors of freight." Fifty miles seems rather low for the final figure. Railway switching activities and schedules must be taken into consideration before that is set. How is this 'properly co-ordinated system' to be effected? The Duff Report itself, takes a long step in that direction. It recommends that schedules of truck rates be published and adhered to. Common carriers must accept and carry what is offered without discrimination. Insurance must be carried against risks; accounts kept and returns rendered in a prescribed manner; uniform bills of lading should be enforced. Working conditions including wages and hours of labour should be checked. Due regard should be taken towards the preservation of roads and public safety. To these, we would add two amendments to make the operating and rate conditions fairly comparable with those on the railways. In the first place, the authority with whom rates would be filed and by whom charges of discrimination would be investigated should also have powers of regulation covering the reasonableness of the tools per se. In this way, while discrimination itself may be absent, the rate charged a particular locality or product would not be able to get out of line with the general structure. Secondly, the bald term 'discrimination' should be modified to 'unjust discrimination'. We could point to many cases where the Board has found actual discrimination but has allowed the rate because no unjust or undue preference has been found in the face of circumstances attending the movement. After all, lower unitary charges on heavier than on lighter shipments or on longer than on shorter distances is a form of discrimination which usually cannot be classified as unjust.

Taxation

Taxation, however, is a form of regulation and all authorities do not agree with the Duff Report when the claim is made that relief

will come to the railways by regulation of truck traffic as distinct from taxation. The statement is made on behalf of the railways that the so-called taxes, paid by trucks, are not taxes in the real sense of the word since they pay nothing towards the general cost of government. It is then pointed out that such payments are comparable to the rail carrier's outlay in maintenance of his right-of-way plus fixed charges thereon. There is a germ of truth in the idea provided it be not carried to extremes. Certainly the truck should and does pay a higher assessment than a private automobile, because of its greater wear and tear on the highway. If, however, the total payments from such motor transports exceed a fair share of maintenance and fixed charges, then a form of true taxation is involved. It is unfortunate that there has not yet been a study of this problem conducted in the light of purely Canadian conditions. Until such a study is made, we have very little alternative to our present empirical methods which, according to trucking firms at least, seem to be heading towards the marginal concept of charging what the traffic will bear.

However, the State's duty will have largely been fulfilled when it has set both forms of transportation on an even basis of competition. Much that has been said about highway carriers applies with equal force to water transportation. There again we find unregulated rates and devastating rate wars during times of traffic stringency. It would, of course, be impossible to have legislative regulation over ocean rates. Even inland rate regulation presents almost insuperable difficulties. Should the State decide, however, that water carriers do carry on competition on a preferential basis, there still remain two forms of regulation, namely, taxation and canal tolls. At the present time it would be difficult to prove unfair competition in this field because there seem to be fairly strong agreements between the rail and water carriers where competitive traffic is concerned.

For the rest, the railways should look to themselves. Present business methods with their characteristic small inventories and rapid turnover demand speedy and reliable transportation which has a degree of flexibility hitherto unknown in the railway world. The container system, demountable truck bodies or rail wagons are all ideas that have yet to reach the experimental stage in Canada. In sections of the United States, their use has already proved successful. Possibilities of electrification were advocated as far back as the Drayton-Acworth report of 1917 and have been raised many times in the House of Commons since that date, but we have yet to see an impartial investigation of the idea. A judicious co-ordination of truck and rail service would have great effect in lowering terminal expenses. The problem is large, but not insuperable. A solution can be reached if we postulate an intelligent co-operation on the part of all the interests concerned.

Johnny: "Have you heard the new Scotch football yell?"

Bill: "No, what is it?"

Johnny: "Get that quarterback, rah, rah! Get that quarterback, rah, rah!"

* * * *

The pastor of a church in Toledo has in his congregation woman of conviction and determination who is very outspoken. She said to him the other day: "There is no reason for a minister to take a whole month of vacation. The devil never takes a vacation."

"Certainly not," replied the minister. "That's why he's a devil. I'd be one, too, if I didn't."

Investments and Investment Principles

By W. W. FOOT,
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(Before Central Ontario Chapter, November 16, 1933.)

THE investment of money is a problem that presents itself to business men who, in many cases, are ill-equipped to deal with it, not so much on account of lack of ability as on account of lack of experience and training. The last ten years has produced many examples of splendid business men in the persons of manufacturers or commercial men who by great industry and cleverness have accumulated handsome sums of money, only to lose the same by ill-chosen investments; and, after all it is not so surprising to have seen this occur as the training of these men has been concentrated in the production rather than the conservation of wealth. The purpose of this paper is to deal with Canadian investments in a very general way; enumerating different classes; and touching on fundamental features of different classes of investments rather than to consider individual securities.

Money is usually invested in (a) Bonds and Debentures, (b) Stocks and (c) mortgages. And inasmuch as my experience has been entirely confined to Canada, I discuss these classes in the light of the Canadian situation only.

Bonds and Debentures

A "Debenture" is a promise to pay—not secured by any security other than the good faith and reputation of the borrower. A "Bond" is a promise to pay backed by the pledge of certain tangible assets of the borrower. These definitions are so condensed as to open themselves to criticism but in a broad sense they distinguish as between a debenture and a bond. Hence, the securities of the Dominion of Canada, the provinces and municipalities are debentures, whereas the promises of corporations and associations, where they are secured by pledge of assets, are bonds. The holder of a debenture in default is in about the same position as the holder of a note past due and in order to get his claim settled, he must obtain judgment through the courts before he may levy on the assets of the debtor, whereas the holder of a bond in default may recover in the manner set out in his agreement without recourse to the courts.

Securities of the Dominion of Canada

The debentures of the Dominion of Canada, erroneously called "Dominion of Canada Bonds", being the pledge of the highest constituted authority in the country, rank first in importance among all Canadian securities. They are issued from time to time as required by the Minister of Finance and bear many different interest rates for varying terms of years, according to the terms of issue. Debentures guaranteed by the Dominion are considered, within this country, to be practically the equivalent of direct obligations as the

default of the former would destroy confidence in the latter. In the New York market, however, Dominion of Canada direct obligations rank slightly higher than Dominion guarantees such as Canadian National Railway issues for no better reason than that Canadian National Railway securities are looked upon as railroad securities primarily, with a guarantee attached.

Short term securities of the Dominion, usually sell at a higher proportionate price, calculated on a yield basis to maturity, than long term Dominions, due to the fact that they are less susceptible to fluctuations in price during times of stress and are consequently in greater demand by banks and corporations whose capital must be kept extremely liquid. To illustrate the effect of term on price:—a two-year bond bearing 4% coupons and selling on a 4½% basis would be priced at 99.53 whereas if the same bond were selling on a 4¾% basis it would be priced at 99.59—a range of 1.06 points or $10.60 per thousand dollar bond. Now, a twenty-year bond bearing the same coupons and selling on a 4½% basis would be priced at 96.65 while the same bond sold at a 4¾% basis would bring a price of 90.39—a range of $62.60 per thousand dollar bond. That is to say, the short security would drop $10.60 against $62.60 for the longer term, all within the same yield fluctuation.

Dominion of Canada short-term securities constitute the most liquid investment for corporations which must be in a most liquid position due to their marketability and relative stability in price in times of stress and uncertainty. Because of this stability and the consequent demand for this characteristic, the yield is less than on the longer term debentures.

It is difficult to judge the true worth of Dominion of Canada bonds for lack of a yardstick. It is manifestly improper to compare a young country with a population of ten millions against the United States, Great Britain or France or other larger and older countries. The Dominion has a debt of over two and one-half billion dollars against which there is a sinking fund of only sixty-two and one-half millions which is a net debt of $251.20 per capita—very considerably greater than any of the Provinces. In order to meet the expenses of government and to pay the interest on the debt, every conceivable method of taxation has been utilized. Notwithstanding the taxes resorted to, there was a deficit last year of some $114,000,000 although from newspaper reports, one is led to believe this will be reduced during the present fiscal period. In the last analysis, a balanced budget is the greatest source of encouragement in public finance because, when expenses exceed income, the country is in reality borrowing money to meet interest—that is, pyramiding its debt—a policy that cannot be carried on indefinitely. The government of the Dominion, controlling the currency of the country, can, in a pinch, fulfil almost any pledge, providing its conscience is not too strict: on the other hand, it cannot play with its obligations without destroying the confidence of lenders.

Provincial Securities

The obligations of the provinces of Canada are regarded by the majority of persons as being second in security to those of the Dominion although just because a security is a provincial obligation, it does not follow that all provinces are equal in security. It is simpler to appraise the debentures of the provinces than those of the Dominion since the finances of the provinces can fairly be compared and rated. The debt per capita is probably the most vital yardstick, after making allowance for industrial, commercial and

agricultural development, natural resources and self-sustaining public enterprises. The provinces usually collect their taxes in cash at the time the consumer pays for the article taxed, for example—the gasoline and liquor taxes—and consequently the actual cash income pretty well constitutes its revenue; in other words—there are comparatively few accounts receivable from taxpayers and when a provincial budget is out of balance, it is a definite indication that expenditure is higher than ability to collect. This statement requires some qualification when applied to those provinces that levy an Income Tax. At the present time, some Canadian provinces are failing to meet sinking fund requirements which seems an obvious indication that they are top heavy with debt. Some provinces now issue debentures to pay for the cost of direct relief—that is to say, they are taking five to ten years to pay for bread and milk that is consumed in a day—a practice that might be condoned as a rare expedient but one that is fatally wrong if it becomes a policy. Securities of Canadian provinces are still highly regarded but changes in government policy must gradually take place if they are to be kept so.

In order of merit the debt per capita, less sinking funds, of the Canadian provinces appears as follows:

Province of Quebec	$ 31.91
Prince Edward Island	32.81
Nova Scotia	120.08
New Brunswick	135.96
Saskatchewan	140.89
Manitoba	147.32
Ontario	159.39
Alberta	182.28
British Columbia	183.20

It will be noted from this table that Ontario stands seventh among nine when considered in the light of net debt per capita which is undoubtedly an unfavorable position. In this case, allowance should be made for its self-sustaining debt which includes the Hydro-Electric Power Enterprise and the T. & N.O. Railway, neither of which lean on the government for financial assistance. Prince Edward Island, while having provincial status, might better be compared to a prosperous county rather than against other provinces. It has a population of about 80,000 persons and a funded debt about equal to that of the city of Belleville. Aside then from Prince Edward Island which is in an excellent financial condition, I believe that the eastern provinces are rated by intelligent opinion as follows:

1. Province of Quebec.
2. Ontario.
3. Nova Scotia.
4. New Brunswick.

Among the western provinces, Saskatchewan rates highest statistically but its almost complete dependence on wheat prevents it from being so rated by investors. The western provinces, therefore, are generally considered in the following order of preference:

1. Alberta.
2. British Columbia and Manitoba about equal.
3. Saskatchewan.

Municipal Debentures

Municipal debentures are issued by Canadian cities, towns, villages, townships, counties and in a few special metropolitan districts

that are the exception rather than the rule. Until the present depression, defaults in municipal securities were very rare and this class of security was regarded without question or doubt and was considered next in preference to provincial obligations. Today, however, the spectacle of some of our most important urban municipalities in default has provoked an attitude of extreme caution on the part of investors and some time must pass before municipal debentures as a class regain their former prestige.

A municipal security is best judged by

(1) Tax arrears.
(2) Funded and current debt.
(3) Taxation.

Due to difference in size, comparisons are best made on a per capita basis.

Many persons will not agree with me in this statement but it is my opinion, nevertheless, that tax arrears per capita should not exceed $10.00 and net funded debt should not exceed $150.00 per capita. These figures do not represent the limit of safety but rather the limit of prudence and they are being overreached by a great many important centres today.

Among Ontario cities, Kingston, Ottawa, Peterboro, Woodstock, Chatham and Kitchener are in the most favorable position. The debentures of the city of Toronto enjoy the broadest market of municipal debentures due to the size and importance of that centre but its $13,000,000 of tax arrears are beginning to encourage discussion of the city's financial position and will continue to until this weakness is corrected. The city of Montreal is also open to criticism on account of its tax arrears. All municipal debenture offerings are now being carefully studied—the financial statistics playing a far more important part than ever before. Windsor has tax arrears of $53.00 per capita and East Windsor has $113.00 per capita. If due caution had been exercised by the investing public in the case of these two municipalities, it is improbable that they could ever have worked themselves into their present unfortunate position. Municipal debentures represent a fine type of investment where marketability is not the prime factor as they are sold with difficulty and often at a considerable loss in times of financial stringency.

Where default occurs, the debenture holder may sue to recover his claim unless a board of supervisors has been appointed, in which case all actions are stayed and the debenture holder must wait until funds are available to meet his claim.

Municipal debentures are issued on two plans, namely, the sinking fund and the instalment plans. Under the sinking fund plan, the municipality builds up a sinking fund to retire each issue at maturity. Thus the sinking fund is an important item in the balance sheet of those municipalities that have them and no intelligent appraisal can be made unless the list of investments are shown. Under the instalment plan, the municipality pays off a certain amount of the principal each year. Experience has proven that the instalment plan has worked to the best advantage of all concerned as municipal councils and officials need not have the problem of investment to deal with.

Debentures of counties for many years have been held in the highest regard and there has not been a single county default in the history of Ontario. This class of security has, to my mind, been overrated since a county depends for its revenues on the municipalities within its borders and is really little stronger than its component

parts. Within the last year, the debentures of certain Ontario counties have been sold to the public at prices to yield the same as Ontario Hydro securities which I think shows little judgment on the part of investors.

Corporation Bonds

The study of the merit of various corporation bonds is one of the most engaging pastimes that a student of finance can find. Corporation bonds have been and will continue to be a tremendously important factor in the economic development of the country and have greatly added to the progress of public utilities, transportation, agriculture, manufacturing and real estate development. This type of security is a bond in the true sense of the word, being secured by the assets of the borrower.

When a corporation bond issue is offered to the public, the conditions on which it is offered are fully set out in a document called a trust deed so that there may be no doubt as to the pledges given by the borrower. The trust deed is deposited with a trust company which acts in the capacity of Trustee to see that the conditions of the trust deed are lived up to and consequently the bondholder can feel that he will be advised of any default in the borrower's undertakings. He does not have to depend on the borrower for his information but rather on the trustee.

When a corporation fails to live up to the terms of the trust deed, the trustee, by public advertisement, calls a meeting of the bondholders at which meeting there is usually appointed a bondholders' protective committee which either assumes control of the borrower's business or grants such concessions from the original terms as it may deem advisable. Thus, there is a regularly established procedure to assure bondholders that they are, in fact, mortgagees with fully defined securities and powers. In this respect, theoretically, the bondholder is in a preferable position to a debeture holder. In actual practice this has been borne out when one considers that the first mortgage bonds of the Bell Telephone Company and the Montreal Light, Heat and Power Company have sold at higher prices than Dominion of Canada obligations.

Corporation bonds are divided into many classifications among which are first mortgage bonds, general mortgage bonds, collateral trust mortgage bonds, real estate mortgage bonds, refunding first or general mortgage bonds, income bonds, equipment bonds, etc., etc.

In order to appraise the worth and safety of corporation bonds, one usually confines comparisons according to industries, it being considered fair to compare the bonds of one power company against another power company but not against, say, a grain company. In order to judge intelligently on a corporation bond one must have the financial statement of the company, preferably for several years; the conditions of the trust deed; the contracts of the business if any; and a general knowledge of the nature of the business so that its usefulness and permanence may be weighed.

Corporation bonds are usually issued for 15, 20, 30 or 40 years at the end of which term they fall due. Consequently the purchaser of a bond should determine what sinking fund is provided by the trust deed in order that he may estimate his chances of being paid off when his bond matures.

The true worth of a bond is best judged by the earning capacity of the business in relation to the debt over a period of years, assuming that the business itself is useful to society and will continue

to be so. This is most easily expressed by calculating the number of times bond interest is earned after providing for all operating expenses, depreciation and sinking fund. Were a company to earn its bond interest three times after depreciation, one would feel that his security was satisfactory. If, however, the directors of the Company disbursed the surplus earnings as dividends on stock, without any attempt to build up adequate reserves to meet contingencies, one might be satisfied with earnings and dissatisfied with management policy. Power company bonds depend largely on contracts for the sale of power for their security as the plants themselves are only valuable if their output can be sold at a profit. Comparison of the amount of assets against each $1,000 bond is a measurement that has fallen by the wayside since book assets under today's conditions could seldom be realized. Real estate bonds depend upon the rentals of the properties by which they are secured rather than on the estimated value of lands and buildings. And in almost every case, **earnings of the borrower coupled with the integrity of the management** are the soundest foundation on which to build an estimate of value.

Today, many corporation bonds are in default and others have fallen substantially in price from the original issue level. Then again, securities such as The Bell Telephone Company, Montreal Light, Heat & Power, Canadian Copper Refiners, Ottawa Valley Power Company and many others have held up better than many Provincial and municipal issues. Abuses of the past were possible principally because of the ignorance of purchasers and the avarice of promoters. There has been too great a disposition to look at an issue in a very casual way, to make a mental estimate of the importance of the borrower by the manner in which it is known and to utterly neglect the facts and figures that have seldom failed to show weaknesses and strong points in the borrower's position.

Stocks

The owner of a bond is a lender of money whereas the owner of a stock is part owner of a business. Since the stock market crash of 1929, stocks have fallen into public distrust but this does not mean that they are finished as a medium of investment. Were the government of the country to embark on broad inflation, stocks might be expected to rise in value while bonds, bearing a fixed rate of interest, could be expected to fall due to the reduced purchasing power of the dollar.

Like corporation bonds, the value of a stock depends on the earnings of a company, its permanent usefulness to society and the integrity of its management. Years ago, it used to be a rule of thumb that a stock was worth ten times its earnings, which I think still holds true to conservative judges, but speculators have so disturbed market prices that few stocks are quoted at this level. As an illustration of this, many gold stocks are selling at from twenty to fifty times earnings, notwithstanding that a mine is a wasting enterprise, and liquor stocks have been lifted to high levels in anticipation of business in the United States resulting from the repeal of the eighteenth amendment to their Constitution. May I express the opinion here, which is aside possibly from the theoretical phase of investment, that stocks are the medium by which enormous sums are lost by trusting people merely because the practice of purchasing on margin is permitted. There is no reason why our citizens as a whole should be prevented through fear from participating in the progress of business enterprises merely because speculators can control prices at will. The purchase of stocks on margin is an incentive to pur-

chase more than one can afford and will continue to lead to tremendous abuses until corrected.

As in the case of corporation bonds, the appraisal of stocks requires a close study of the balance sheet and of all conditions surrounding the company. Bond issues have priority over stocks and the difference in status of preferred and common shares should not be assumed but should be carefully studied from the company charter.

Mortgages

Investment in mortgages has reached tremendous proportions in Canada and offers a fine medium for large and small investors alike. An individual is in a position to judge the security of a mortgage to better advantage than he can judge a bond providing he is acquainted with property values and can depend on the responsibility of the mortgagor. The disadvantage of mortgages lies in their lack of marketability and hence mortgage interest rates are usually higher than rates on good municipal debentures. Loan companies and financial institutions investing in mortgages usually limit their loans to 50 per cent of the valuation of the property to be mortgaged, as valued by a competent appraiser. During this depression, real estate has depreciated to 50 per cent of its 1929 value in numerous centres, and hence, many mortgages conservatively placed in recent years have lost much of their security. Some provincial authorities have passed Moratorium Acts which prevent the foreclosure of mortgages providing interest and taxes are paid even though principal is due and thus the mortgagee has to be content with the income only from his investment until such laws are repealed.

Mortgagees, to protect their loans must be vigilant to see that the taxes against the property are paid as taxes have priority and must also protect themselves by making certain that the fire insurance is in force. Mortgagees today are extremely conservative in property valuations and want assurance that the mortgagor is gainfully employed with sufficient income to meet carrying charges and principal payments.

Summary

In order that there may be some practical value to this paper, may I say that in my opinion industrial companies with idle funds on which they wish to earn interest but which may be needed on short notice are best advised to invest them in the highest grade of securities such as Dominion of Canada or eastern Provincial securities. If liquidity is paramount, short term bonds are more desirable than long term bonds for reasons previously stated. Companies with large sums available for more or less permanent investment should place a very substantial proportion in high grade investments well diversified, and the remainder in well-chosen municipal and corporation securities to increase interest return.

One of the most experienced Canadian investment bankers said a year ago that he was convinced an individual's best investment was:

(1) Life insurance to an amount considered adequate to the individual's need.

(2) A home if he needed one.

(3) The first $25,000 of his money in excess of (1) and (2) in Dominion of Canada bonds or high grade Provincial bonds.

(4) The balance of his funds, if any, in 1st grade municipals, 2nd grade Provincials, then corporation bonds, mortgages or stocks.

I think you will agree that there are a number of well-to-do Canadians who now wish they had followed this conservative advice. Individuals if they have a substantial sum of money are better advised to buy high grade bonds in lots or multiples of $5000 as dealers will charge less proportionate commission than when purchases or sales are made in odd amounts.

Executors of estates and public officials acting as Trustees should consider safety first and income second. And investors generally should realize that one of the hardest things in the world is to make money earn six per cent year in and year out with safety. If this were not so we would all be rich by virtue of our great grandfather's investments and compound interest.

For your further information, I obtain most of the statistics which I require regarding securities from the following sources:

DOMINION OF CANADA AND PROVINCIAL SECURITIES—The Canada Year Book and from annual publications of The Dominion Securities Corporation Ltd. and A. E. Ames & Company of Toronto.

MUNICIPAL SECURITIES—The Annual Blue Books of Municipal Statistics published by the Provincial governments.

CORPORATION BONDS AND STOCKS—The "Survey of Corporate Securities" published by The MacLean Publishing Company Limited of Toronto.

A Scotch salesman, held up in the Orkney Islands by a bad storm, telegraphed to his firm in Aberdeen: "Marooned here by a storm; wire instructions."

The reply came: "Start summer vacation as from yesterday."

* * * *

Woman to clerk, after he has shown her blankets for half an hour: "I don't want any today, I'm just looking for a friend."

Clerk: "Well, there's one blanket left on the shelf, madam. If you'll wait a minute I'll look and see if she is in that."

* * * *

Absolute knowledge, I have none
But my aunt's washer woman's son
Heard a policeman on his beat
Say to a laborer on the street
That he had a letter just last week,
Written in the finest Greek,
By a Chinese coolie in Timbucto,
Who said that the negroes in Cuba knew
Of a colored man in a Texas town,
Who got it straight from a circus clown
That a man in the Klondike heard the news
From a gang of South American Jews
About somebody in Bamboo,
Who saw a man who claimed he knew
A swell society female rake,
Whose mother-in-law would undertake
To prove that her husband's sister's niece
Had stated in a printed piece
That she had a son who had a friend who says
The depression has come to an end.

TARIFF AND TAXATION

From the Department of National Revenue, Excise Division:

Re Sales and Excise Taxes

Collectors have been advised by official circular dated October 23, 1933, signed by H. D. Scully, Commissioner of Excise, as follows:—

Re: Application of Sales and Excise Taxes to tires, tubes, etc. Persons who import scrap tires with beads and wires cut in such a way as to render them unsaleable for use on motor vehicles are to be charged Special Excise Tax of 3 per cent and Sales Tax of 6 per cent at the time of importation, unless they hold licenses as wholesalers or manufacturers, in which case the usual rulings apply.

Persons importing tires for resale in the same condition as imported, and with beads and wires uncut, will be called upon to account for the Special Excise Tax of 3 per cent, the Excise Tax of 2 cents per pound and the Sales Tax of 6 per cent on the used tires imported. The Sales and Excise Taxes will be governed by the following paragraph:

Persons who import or purchase in Canada, used tires which they retread and sell, are required to operate under sales and excise tax licenses and the special excise tax would apply only on importation. Persons operating in this manner are required to account for the Excise Tax of 2 cents per pound on the finished tires produced, together with the Sales Tax of 6 per cent on the sale price.

Persons who manufacture or produce tire liners, patches or shoes for used tires, are held to be manufacturers and required to operate under license and account for sales tax of 6 per cent on their sales, whether they repaint and package the patches, etc., or not.

Collectors should note that the foregoing is not intended to cancel the provisions of Section 95, Subsection (2) permitting small manufacturers who sell exclusively by retail to remain unlicensed and the ordinary tire repair shop will not be affected by this circular, unless, their businesses are extensive in the lines mentioned above.

Re: Peanuts

Collectors are advised as follows:—

Persons, firms or corporations, who import or purchase green peanuts which they roast, salt, or otherwise process are required to operate under Manufacturers Sales Tax Licenses, whether the operations aforementioned are performed by themselves on their own premises or whether these operations are performed by others for them, or on their behalf, and the tax is held to apply on the sale of the roasted, salted or processed peanuts.

Persons, firms or corporations, who operate roasting machines and perform the actual roasting as above referred to, are also required, as in the past, to operate under Manufacturers Sales Tax Licenses and account for sales tax in respect of the roasting of peanuts performed for non-licensees. In this connection, your attention is directed to Section 5, on page 15, of the Consumption or Sales Tax Regulations concerning "Custom Work."

You are requested to see that in the cases of persons, firms or corporations operating in the above manner, in your port, to whom licenses have not already been issued, that this action is immediately taken.

The above does not apply to small manufacturers such as vendors of peanuts who travel about the streets, and they will, as hitherto, be regarded as exempt under Section 95, Subsection (2) of the Act.

CHAPTER NOTES

MONTREAL

Reported by R. Schurman, C.A., Secretary.

All attendance records of regular meetings of the Montreal Chapter were broken on Friday, November 3rd., when the affairs of "Hope Washing Machine Company" were the subject of discussion. Room 23 of the Arts Building, which on previous occasions had seemed too large, was on this evening filled to overflowing and the meeting was called to order in Room 34, where 150 or more interested "shareholders" made things lively for the president and directors, who had a hard time trying to square their actions and get away with it.

The seasonal programme carried the announcement that on this date there would be a meeting of the "XYZ Company". "XYZ", under the careful planning of L. N. Buzzell, Paul Dufresne, Walter Blunt, and Geo. T. Bowden, became the "Hope Washing Machine Company Limited"—a formal notice of an Annual Meeting being sent out to all of the Chapter members, who were constituted shareholders of the company, and the secretary's notice stated that "no proxies would be accepted". This may have had something to do with the overflow meeting.

Chapter Chairman Patton called the meeting to order and introduced the officers of the company, following which president Buzzell assumed control of the meeting. After severe heckling on methods of procedure, the rountine business of the meeting was concluded and the chairman moved that the several reports and company's statements be accepted. The fat was in the fire and despite the chairman's attempts to muzzle the meeting, the shareholders insisted on hearing in detail the auditor's special report to the directors, prepared by H. W. Blunt. Each item of this report was discussed and the war between the disgruntled shareholders and the company's officials waxed fast and furious.

The president had a most efficient accomplice in Geo. T. Bowden, as secretary, whose meek excuses and quiet explanations, lulled the poor innocent shareholders into accepting his president's statements to be equally as satisfactory as any statements which have been made by the one-hundred-thousand-dollar-a-year president of the Chevy National Bank.

But this interested group of shareholders — C.A.'s; C.G.A.'s; C. P.A.'s; L.A.'s; L.I.A.'s; Industrial Engineers and what have you—were equally astute in analyzing balance sheets, and led by "Father Belanger", over-rode the threats of president Buzzell that he could not give more information because of fear of competitors of the company. The "old bogey" was trotted out frequently but it failed to create any inhibitions on the part of the shareholders.

An auditor of the "opposition company" was present; at least he so introduced himself, and being also a shareholder in "Hope", there were many things which he wanted to know.

"One of the unemployed", in the person of Professor of R. R. Thompson, had a great many pertinent questions to ask. The president in reply, facetiously told this shareholder that he seemed to have had plenty of time to spend on analyzing the affairs of the company.

The balance sheet, drawn up with its accompany auditor's report, contained an innocent looking "Subject to our Report" phrase, typical of many company reports which hide so much and tells so little to unsuspecting shareholders. In the course of the discussion the president called upon the heads of the various operating departments of the company, to interpret results of their management. P. W. Wright defended the sales department; G. I. MacKenzie upheld the policy of the factory operating, with canny but unaccepted explanations; Geo. T. Bowden, secretary-treasurer, admitted that he had held a loose hand on the purse strings of the company, and that all the officials were indebted to the company. He brought down the house when he explained that in justification for these advances he had accepted insurance policies and wills made by the officials, wherein the company was made a beneficiary. Very innocently he admitted that he believed the insurance policies had not yet been made payable to the company, the company was fully protected through the various wills.

Paul Dufresne, industrial engineer, and also a director, who owed his position to the influence of the bank for the purpose of making an investigation of the affairs of the company, gave a most careful report on the causes of losses in operations, and gross mismanagement by the directors. He was severely criticized because he had not put himself on record against issuing the audited balance sheet.

The meeting was fast and furious—there were points of order to be decided; legal questions to be argued; management policies to be commended or criticized. Although the board of directors made a strong plea to be continued in office, the shareholders were unanimous in demanding their removal.

The evening was all too short to thoroughly review many of the facts which were open for discussion. Since the meeting there have been several requests that the examination into the affairs of this now famous company, be continued. A number of lady students and articled audit clerks, were present, also a goodly representation from the Chartered Institute of Secretaries.

As a creator of enthusiasm, the staging of a shareholders' meeting, can be voted "one of the best".

TORONTO

Reported by Scott Fyfe, assistant secretary.

Speaking to the largest attendance of the season on November 20th, Mr. J. Fowler of the Robert Simpson Company Ltd. gave a most comprehensive outline of budgetary control. Mr. Fowler made use of lantern slides to illustrate his address showing budgeted as against actual sales, expenses, etc., in his organization. Spirited questioning during the discussion period failed to draw from Mr. Fowler some of the more intimate details of the system used by the Robert Simpson Company in the distribution of incidental expenses; but in spite of this, Mr. Fowler's talk will be remembered as one of the most instructive and informative which we have had, and the meeting as one of the best yet. A notable feature of the meeting was the number of guests introduced by the members of the chapter; we hope to see this repeated in the future.

At the next meeting, on December 15, Mr. W. G. Berner, C.A., of the Toronto Carpet Manufacturing Co., Ltd., will speak on the subject

of "Textile Costs". Mr. Berner, from his own technical knowledge and experience, is well qualified to treat his subject in a practical and interesting manner. A most profitable evening is assured to all those who attend.

HAMILTON

Reported by Scott Fyfe, assistant secretary

The Hamilton Chapter of the Society held still another fine meeting on November 15th, when Mr. E. W. Carpenter of the Consolidated Industries Ltd., Toronto, gave the address. In spite of adverse weather conditions, a good representation was on hand to hear about "The Economics of Cost Accounting", and judged by the comment during the discussion period, the talk was of much practical value. Mr. Carpenter stressed the opportunity, neglected in so many instances, for cost accountants to extend their field into the distributive aspects of the business in which they are engaged. There is at present, he said, relatively a few enterprises in which sales, selling expenses, etc., are budgeted; it is the place of the cost accountant to show that, by the application of scientific methods, savings may be made in these lines similar to those which have been made in manufacturing costs.

The December 6th meeting will be addressed by Mr. H. M. Hetherington, of Toronto, on "The Application of Bonus Incentives to Production and Selling".

At our next meeting, on January 9th, which will be held jointly with the Canadian General Accountants of St. Catharines, Mr. R. D. Little of the Canadian Bank of Commerce, Hamilton, will speak on the subject of "Canadian Banking". This is a matter of practical interest at the present time.

CENTRAL ONTARIO

Reported by W. A. McKague, general secretary.

The Central Ontario Chapter meeting of November 16th, held in Kitchener, fell somewhat short of previous high attendance records, the weather being decidedly stormy, but was well above the low records, more than a dozen being present. Mr. W. W. Foot, assistant manager of the Economcial Mutual Fire Insurance Company, Kitchener, gave a well prepared talk on Investments. His address is reproduced in this issue, and is well worth reading. The meeting concluded with a brief discussion.

Central Ontario Chapter continues with a meeting on December 14th, at Galt, the topic being "Financial Statements" and the speaker Mr. H. A. Shiach, F.C.A., of Rutherford Williamson & Co., Toronto. This is an appropraite subject for the closing month of the year, and we are assured of both profit and pleasure in hearing Mr. Shiach, who is an accountant and auditor of wide experience, and an entertaining speaker.

MEMBERSHIP CHANGES

The following are new members of the Society:

Montreal

Davies, C. C., Brisbane & Davies, Montreal.
McMillan, L. N., Dominion Oilcloth & Linoleum Co., Ltd., Montreal.
St. Denis, B., Direct Sales Corp., Ltd., Montreal.
Willcox, F., C.A., Geo. A. Touche & Co., Montreal.

Toronto

Sparks, E., Imperial Varnish & Color Co., Ltd., Toronto.

Hamilton

Arnold, E. B., Norton Co. of Canada, Ltd., Hamilton.

PERSONAL ITEMS

R. Joubert, treasurer of our Montreal Chapter, has been promoted to the position of Assistant Inspector of Income Tax at Montreal.

At a recent meeting of the Board of Directors of the Robert Mitchell Company, Ltd., Alfred Broomer, C.A., comptroller and secretary, and a member of Montreal Chapter, was elected to the Board.

C. G. McConnell, C.A., formerly with the Toronto Office of Deloitte, Plender, Haskins and Sells, is now associated with the firm of Riddell, Stead, Graham and Hutchison, with offices in the C.P.R. Building, Toronto.

F. S. Vanstone, C.A., has left the firm of Clarkson, Gordon, Dilworth, Guilfoyle and Nash in order to join the Elias Rogers Co., Ltd., of 157 Bay St., Toronto.

W. D. Glendinning, C.A., of Toronto, announces his retiral from the firm of Riddell, Stead, Graham & Hutchison, and the formation of the firm of Glendinning, Gray & Roberts, with offices in Toronto and Winnipeg. The partners of the new firm are W. D. Glendinning, C.A., E. A. Jarrett, C.A., and William Hogben, C.A., of Toronto, and A. Gray, C.A., and R. A. Roberts, C.A., in Winnipeg. The practice of the firm in Montreal will be carried on in conjunction with that of W. H. Campbell, C.A., under the firm name of Campbell, Glendinning & Co. The firm of Glendinning, Gray & Roberts also announce that they have taken over the practice of the late A. K. Bunnell, F.C.A., Brantford, Ont.

Kit: "Gee, but that date last night was fresh."
Kat: "Why didn't you slap his face?"
Kit: "I did, and take my advice, never slap a guy when he's chewing tobacco."

* * * *

Mrs. Harris—Well, you can try 'im, but so far there's been only one man who's been able to keep my husband off the drink for any time.

Visiting Parson—Ah, and was he a clergyman, too?

Mrs. Harris—No, he was a judge.

THE TREND OF PRODUCTION COSTS

Commodity prices as measured by the Dominion Bureau of Statistics index number which is based on the year 1926, declined from 68.9 in September to 67.9 in October. The following is a comparison by main groups:

	Oct. 1932	Sept. 1933	Oct. 1933
Foods, beverages & tobacco	60.8	64.7	64.7
Other consumers' goods	77.4	77.4	77.3
All Consumers' goods	70.8	72.3	72.3
Producers' equipment	86.8	85.6	85.4
Building & construction materials	76.5	80.8	81.0
Manufacturers' materials	52.9	60.4	57.7
All producers' materials	57.2	64.1	61.9
All producers' goods	60.2	66.3	64.3
All commodities	65.0	68.9	67.9

The principal declines in October were in the following: Foreign fresh fruits, grains, flour and milled products, vegetables, hides and skins. live stock, meats and poultry, cotton yarn and thread, flax hemp and jute products, raw silks, copper and brass, drugs and pharmaceutical chemicals. The principal advances in October were in the following: Dried fruits, fats, eggs, rayon products, wool blankets, wood pulp, dyeing and tanning materials, fertilizers.

A veterinary surgeon was instructing a farmer as to a suitable method for administering medicine to a horse.

"Simply place this powder in a gas pipe about two feet long, put one end of the pipe well back in the horse's mouth and blow the powder down his throat."

Shortly thereafter the farmer came running into the veterinary's office in a distressed condition.

"What's the matter?" asked the veterinary.

"I'm dying" cried the farmer. "The horse blew first!"

* * * *

"Your honor," said the prosecuting attorney in an American court, "your bull pup has gone and chewed up the court Bible."

"Well," grumbled his honor, "just make the witness kiss the pup: we can't adjourn court to get a new Bible."

* * * *

PREFERRED A FULL LIFE

Doctor—Your husband's not so well today, Mrs. Mahoney. Is he sticking to the simple diet I prescribed?

Mrs. Mahoney—He is not, sorr. He says he'll not be after starvin' himself to death just for the sake of living a few years longer.

* * * *

Wilson is always seeking gratuitous advice. Not long ago he met a doctor at a dinner party. "Do you know," he said, as soon as there was a chance, "I know a man who suffers so desperately from neuralgia that at times he can do nothing but howl with pain? What would you do in that case?" "Well, I suppose," deliberated the medical man, "I should howl with pain."

CHAPTER PROGRAMS

(Montreal, Toronto and Central Ontario programs were printed last month)

HAMILTON CHAPTER—SEASON 1933-1934.

October 4, 1933.
Subject: "The Question of Price"
Speaker: Mr. G. H. Houston, President of The Canadian Society of Cost Accountants & Industrial Engineers. Secretary, Rolph-Clark-Stone Ltd., Toronto.

November 1, 1933.
Subject: "Public Utility Rate Structures"
Speaker: Mr. W. R. Ward, Dominion Natural Gas Co. Ltd., Hamilton.

November 15, 1933.
Subject: "The Economics of Cost Accounting"
Speaker: E. W. Carpenter, Consolidated Industries Ltd., Toronto.

December 6, 1933.
Subject: "The Application of Bonus Incentives to Production and Selling"
Speaker: H. M. Hetherington, The Viceroy Mfg. Co., Toronto.

January 9, 1934.
Subject: "Canadian Banking"
Speaker: R. D. Little, The Canadian Bank of Commerce.
This is a Joint Meeting with Canadian General Accountants at St. Catharines.

January 24, 1934.
ANNUAL SMOKER.

February 7, 1934.
Subject: "The Presentation of Reports from an Executive Viewpoint"
Speaker: J. J. McHardy, Secretary-Treasurer and Comptroller, Mercury Mills Ltd.

February 24, 1934.
Subject: "Cost Accounting and Budgetary Control"
Speaker: K. A. Mapp, F.C.A., Toronto.

March 7, 1934.
Subject: "A Public Utility Cost System"
Speaker: C. W. Berquist, Hamilton Hydro Electric System.

March 21, 1934.
ANNUAL MEETING.
A discussion on "The Machine Age and Unemployment".

April 4, 1934.
CLOSING DINNER.
Joint Meeting with St. Catharines Branch Canadian General Accountants. Speaker and subject to be arranged.

COST AND MANAGEMENT

REFERENCE LITERATURE

RECEIVED IN NOVEMBER

Management, Some Aspects of Scientific. Manufacturing and Industrial Engineering, November.

National Industrial Recovery Act, Accounting Provisions of. American Accountant, November.

Cost is a Fact, but Price is a Policy. Accountants' Journal, November.

Obsolescence and Depreciation. Accountants' Journal, November.

Apartment, Revenue Accounting by Machine in a Large Co-operative. N.A.C.A. Bulletin, Nov. 1.

Real Estate, Cost of Operating. N.A.C.A. Bulletin, Nov. 1.

Printing Cost Estimating for Price Setting. N.A.C.A., Nov. 15.

Art, Costs and Commercial. N.A.C.A., Nov. 15.

Mining Company Accounts, Metal. Can. Chartered Accountant, November.

Standard Costs in Industrial Undertakings, Significance of. Bulletin of International Management Institute, September.

National Association of Cost Accountants, 1933 Year Book.

An old-time is a man who still remembers when it seemed funny to call two a family. Using tobacco is foolish, but a fellow hates to have his mother-in-law tell him so. A lot of fellows who know how to make and read charts are dead broke. When a man says he feels as young as he ever did it's a sign he doesn't. When they get through improving the airplane, they'll probably improve the air. It is harder to keep a bad man up than it is to keep a good man down. Truth is mightier but many of the lies are lots more entertaining. A lot of folks are happy and don't know it until something unpleasant occurs. There are a umber of people on the ether who should be under it. What you are tomorrow depends on what you think and do today.

* * * *

Clothes often fake the man. Playing second fiddle at home doesn't make a man a musician.

* * * *

Why They All Came—The invitation read—"The party will be gin at 10 o'clock."

* * * *

And then there was the widow who sued the editor of her local paper for saying in an obituary that her husband "had gone to a happier home."

* * * *

"Doesn't your wife miss you when you stay out till three in the morning?"

"Occasionally—but usually her aim is perfect."

* * * *

Judge—You were alone when you committed the robbery?

Delinquent—Yes, your Lordship. You see when you have got a mate you never know whether he is honest or not.

Dolly was just home after her first day at school. "Well, darling," asked her mother, "what did they teach you?"

Not much,' replied the child, "I've got to go again."

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